

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-09 IO-10 AID-05 CIAE-00

COME-00 EB-07 FRB-01 INR-07 NSAE-00 RSC-01 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-01 CEA-01 L-02 H-01 PA-01 USIA-06 PRS-01

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USADB

TREASURY FOR ZINMAN

E.O. 11652: ADS, DECLAS 12/31/75

TAGS: EAID, EFIN

SUBJECT: SWITCHING OF EXCESS DOLLARS

REF: MANILA 7305, JUNE 26, 1973

SUMMARY: ADB PRESIDENT PROPOSES TO SWITCH EXCESS HOLDINGS OF DOLLARS DERIVED FROM CAPITAL SUBSCRIPTION PAYMENTS BY THIRD COUNTRIES AND TO CARRY OUT THIS OPERATION GRADUALLY OVER SOMEWHAT PROTRACTED PERIOD OF TIME. USADB PROPOSES TO CONCUR ON UNDERSTANDING THAT SWITCHING BE SPREAD OVER NOT LESS THAN SIX MONTHS.

1. ADB DOC. SEC. M4-75 ENTITLED "PAYMENT IN US DOLLARS AND POUND STERLING OF THE CONVERTIBLE CURRENCY PORTION OF CAPITAL SUBSCRIPTIONS" WAS POUCHED JAN. 15.

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2. ARTICLE 25 OF BANK'S CHARTER HAS BEEN INTERPRETED TO LIMIT A MEMBER'S AND BANK'S OBLIGATION IN EVENT OF DEVALUATION/REVALUATION, RESPECTIVELY, TO HOLDINGS OF MEMBER'S CURRENCY UP TO AMOUNT PAID IN BY SUCH MEMBER TOWARDS BANK'S CAPITAL. THUS, U.S. GOVERNMENT IS PRESENTLY OBLIGATED TO MAINTAIN VALUE OF BANK'S U.S. DOLLAR HOLDINGS UP TO \$100 MILLION (IN 1966 DOLLARS).

3. U.S. DOLLAR PAYMENTS OF ARTICLE 6.2 (A) PORTION OF CAPITAL SUBSCRIPTIONS BY OTHER MEMBERS, WHICH ARE NOT COVERED BY U.S. GOVERNMENT'S MOV OBLIGATION, AGGREGATING \$108,992 MILLION TO DATE, OF WHICH \$1.5 MILLION ALREADY SWITCHED. SIMILAR PAYMENTS IN POUND STERLING BY THIRD COUNTRIES AGGREGATE \$18,257 EQUIVALENT, OF WHICH \$12,409,500 ALREADY SWITCHED. AMOUNT REMAINING UNSWITCHED TOTALS \$113,339,100, OF WHICH DOLLARS ARE \$107,491,600 AND POUND STERLING \$5,847,500 EQUIVALENT.

4. IN PREVIOUS SWITCHINGS FROM ONE CURRENCY TO ANOTHER TO PROTECT BANK'S RESOURCES, CONCERNED GOVERNMENTS AGREED TO SWITCHINGS ONLY UP TO MOV CEILING AMOUNT OF BANK'S HOLDINGS OF SUCH CURRENCY. TO DIVERSIFY REMAINING UNSWITCHED CURRENCY HOLDINGS IN EXCESS OF MOV CEILING, BANK PROPOSES TO ADOPT FORMULA USING SDR "BASKET OF CURRENCIES" TO MEASURE SPREADING OF RISK EVENLY. (SWITZERLAND, WHICH IS NOT IMF MEMBER, WOULD BE ALLOTTED PORTION WHICH WOULD HAVE GONE TO SPAIN AND SOUTH AFRICA, THE TWO CURRENCIES IN SDR BASKET NOT REPRESENTING ADB MEMBERS.) UNDER THIS FORMULA, ABOUT \$70 MILLION WOULD BE SWITCHED FROM U.S. DOLLARS, INCLUDING \$4,353 MILLION INTO POUND STERLING. THIS WOULD LEAVE \$37,401,900 EXCESS DOLLAR HOLDINGS IN U.S. DOLLARS WITHOUT MOV OBLIGATION.

5. PRESIDENT PROPOSES TO CARRY OUT ABOVE OPERATION "GRADUALLY AND OVER SOMEWHAT PROTRACTED PERIOD OF TIME." INOUE INITIALLY DISCUSSED ISSUE WITH FORMER TREASURY UNDERSECRETARY VOLCKER AT TIME OF BANK ANNUAL MEETING IN APRIL 1973. IN REFTEL DATED JUNE 26, 1973, USADB LIMITED OFFICIAL USE

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SUBMITTED INFORMAL PROPOSAL FROM BANK TO CARRY OUT SWITCHING OPERATION. IN LETTER FROM FORMER TREASURY ASSISTANT SECRETARY HENNESSY DATED JUNE 21, 1974, U.S. DIRECTOR WAS AUTHORIZED TO NOTIFY BANK MANAGEMENT THAT THEY COULD PROCEED ALONG LINES PREVIOUSLY DISCUSSED WITH TREASURY OFFICIALS IF OPERATION SPREAD OVER NOT LESS THAN SIX MONTHS. AT THAT TIME, BANK CONSIDERED SPREADING HOLDINGS AMONG VARIOUS CONVERTIBLE

CURRENCIES OF BANK MEMBERS IN PROPORTION TO CAPITAL
SUBSCRIPTIONS OF SUCH MEMBERS. DOCUMENT NOTES THAT
MODIFIED SDR FORMULA IS CONSIDERED AS MORE RATIONAL
ONE THAN CAPITALIZATION FORMULA FOR SPREADING EXCHANGE
RISK FOR PURPOSES OF DIVERSIFICATION. USADB SUPPORTS
THIS VIEW.

6. IF NO OBJECTION RECEIVED PRIOR TO C.O.B. JANUARY 30,
U.S. DIRECTOR PROPOSES TO SUPPORT PRESENT PROPOSAL WITH
NOTE TO PRESIDENT TO EFFECT THAT U.S. GOVERNMENT UNDER-
STANDS THAT PROPOSAL WILL BE SPREAD OUT OVER NOT LESS
THAN SIX MONTHS.
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